

**REPORT OF THE AUDIT OF THE
KNOX COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

September 8, 2006

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
KNOX COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

September 8, 2006

Douglas R. Wise & Company, PSC has completed the audit of the Sheriff's Settlement - 2005 Taxes for Knox County Sheriff as of September 8, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,423,512 for the districts for 2005 taxes, retaining commissions of \$265,577 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,143,478 to the districts for 2005 Taxes. Taxes of \$2,772 are due to the districts from the Sheriff and refunds of \$1,874 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

As of September 8, 2006, the Sheriff's deposits were insured and collateralized by bank securities or bonds; however, on January 6, 2006, the Sheriff's deposits were uninsured by bank securities or bonds by \$659,598.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Raymond Smith, Knox County Judge/Executive
Honorable John Pickard, Knox County Sheriff
Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the Knox County Sheriff's Settlement - 2005 Taxes as of September 8, 2006. This tax settlement is the responsibility of the Knox County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Knox County Sheriff's taxes charged, credited, and paid as of September 8, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2006, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Raymond Smith, Knox County Judge/Executive
Honorable John Pickard, Knox County Sheriff
Members of the Knox County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -
October 31, 2006

KNOX COUNTY
JOHN PICKARD, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

September 8, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 759,610	\$ 1,012,693	\$ 2,464,342	\$ 912,925
Tangible Personal Property	142,187	136,073	230,417	242,456
Intangible Personal Property				565,914
Fire Protection	2,452			
Franchise Taxes:				
Billed	150,202	156,609	271,959	
Unbilled	2,935	3,666	22,679	
Additional Billings	4,644	8,904	22,338	8,303
Unmined Coal - 2005 Taxes	5,911	7,701	22,290	7,104
Oil and Gas Property Taxes	46,077	60,027	173,739	55,377
Penalties	8,752	11,657	28,013	10,880
Adjusted to Sheriff's Receipt	(16,580)	(345)	-	(356)
Gross Chargeable to Sheriff	<u>\$ 1,106,230</u>	<u>\$ 1,397,038</u>	<u>\$ 3,235,929</u>	<u>\$ 1,831,701</u>
<u>Credits</u>				
Exonerations	\$ 14,528	\$ 19,175	\$ 50,679	\$ 503,892
Discounts	12,784	16,434	38,393	19,174
Delinquents:				
Real Estate	48,415	65,146	164,296	58,029
Tangible Personal Property	3,253	3,113	5,891	4,767
Intangible Personal Property				1,860
Unmined Coal - 2004 Taxes	868	1,131	2,899	1,044
Franchise Taxes:				
Delinquent	1,789	1,946	2,571	
Uncollected	21,064	22,819	32,145	
Unbilled	2,936	3,666	22,679	
Total Credits	<u>\$ 105,637</u>	<u>\$ 133,430</u>	<u>\$ 319,553</u>	<u>\$ 588,766</u>
Taxes Collected	\$ 1,000,593	\$ 1,263,608	\$ 2,916,376	\$ 1,242,935
Less: Commissions *	<u>42,813</u>	<u>52,997</u>	<u>116,655</u>	<u>53,112</u>
Taxes Due	\$ 957,780	\$ 1,210,611	\$ 2,799,721	\$ 1,189,823
Taxes Paid	955,701	1,208,314	2,791,658	1,187,805
Refunds (Current and Prior Year)	<u>1,854</u>	<u>2,441</u>	<u>7,034</u>	<u>2,230</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 225</u>	<u>\$ (144)</u>	<u>\$ 1,029</u>	<u>\$ (212)</u>

* And ** See Page 4

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY
 JOHN PICKARD, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 September 8, 2006
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,475,398
4% on	\$	2,916,376
1% on	\$	21,738

** Special Taxing Districts:

Library District	\$	(53)
Health District		104
Extension District		1,378
Soil Conservation		(1,506)
Ambulance		(103)
Artemus Fire District		36

Due Districts or (Refunds Due Sheriff)	\$	<u>(144)</u>
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KNOX COUNTY
NOTES TO FINANCIAL STATEMENT

September 8, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
September 8, 2006
(Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of September 8, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement; however, on January 6, 2006, \$659,598 of the Sheriff's bank balance of \$4,309,598 was exposed to custodial credit risk as follows:

Uninsured - \$659,598

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 6, 2005 through September 8, 2006.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 24, 2006 through September 8, 2006.

Note 4. Interest Income

The Knox County Sheriff earned \$3,328 as interest income on 2005 taxes. As of October 31, 2006, the Sheriff owes \$1,511 in interest to the school district.

Note 5. Sheriff's 10% Add-On Fee

The Knox County Sheriff collected \$44,173 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 31, 2006, the Sheriff owes \$25 in add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Knox County Sheriff collected \$3,105 of advertising costs and \$3,105 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
September 8, 2006
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, property is assumed abandoned after three years, after which time it is turned over to the Kentucky State Treasurer in accordance with KRS 393.110. For the 2005 taxes, the Sheriff had \$353 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION

KNOX COUNTY
JOHN PICKARD, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of September 8, 2006

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: We hired a bookkeeper in June 2006 to correct this comment..

PRIOR YEAR:

- The Sheriff's Office Lacks Adequate Segregation of Duties

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Raymond Smith, Knox County Judge/Executive
Honorable John Pickard, Knox County Sheriff
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Knox County Sheriff's Settlement - 2005 Taxes as of September 8, 2006, and have issued our report thereon dated October 31, 2006. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knox County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Sheriff's Settlement - 2005 Taxes as of September 8, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -
October 31, 2006

